A Parable of Three Clients

Three people each gave $100,000 to a money manager to manage their money in what they each hoped would be a highly profitable venture. The money manager uses a trend following methodology. The manager set up separate accounts for each client and managed each of them in exactly the same way. Risk never exceeded 3.5% of capital on any market traded and the average historical loss per losing trade was under 2%.

The first client was retired and filled with wanderlust. So, he decided to take off and travel the world. He didn't return for 14 months. In his stack of mail when he arrived home were 14 brokerage statements. He sifted through them and opened just the most recent one. He was pleasantly surprised to discover that his initial investment had grown from $100,000 to $227,000. He didn't even bother to open the other 13 statements. Why bother.

The second client was a very busy gent who was preoccupied with a number of things. Like the first client, he too was hoping for above average returns on his $100,000 investment. As soon as he received his monthly brokerage statements, he quickly open them to see how well his account was doing. For four months in a row, he watched his account balance quickly grow from $100,000 to $170,000. Needless to say, he was thrilled.

But then things seemed to change. Over the next two months, he watched his account balance fall from $170,000 to $161,500 and then to $133,000. That $37,000 drop in 2 months really spooked him. He quickly concluded that, if it were to continue, he might be back to breakeven or even worse. He reacted by calling the manager and closing his account, walking away with $137,000.

The third client was different. He had a lot of time on his hands and was computer literate. He really loved the idea that he could check his account on-line anytime, 24 hours a day. And since he was home most of the time, that's exactly what he did.

For the first month, he only checked his account once or twice. At the end of the first month, he was pleased to see his account was up by over $20,000. So, the next month he decided he wanted to take a closer look and see just how the manager achieved such outstanding returns. At least once a day, he logged onto his account and tried to understand it.

But as he began to watch his account day after day, he grew to worry. On some days, he'd see his balance grow by as much as $15,000 only to see it drop $5,000 the next. What's going on he wondered. So, instead of just checking his account once a day, he decided he'd better watch it more often. He'd log in 2 or 3 times a day. Sometime he'd see nothing for days on end. On other days, he'd see his balance change quite dramatically. Yet despite the fact that his account was still up another $20,000 at the end of the month, he decided to call the manager and close his account and walk away with $140,000.

There was one money manager managing three accounts. Each account started at the same time with $100,000. Each account was managed in exactly the same way. After the first 2 months, each account had grown by $40,000 but the third client had quit. After another 4 months, the remaining two accounts had grown by at least $37,000 but the second client had quit. And after 14 months, the first client, who had not quit, saw his account grow from $100,000 to $227,000.

What lessons can be gleaned from this parable? All three accounts started at the same time with the same amount and were managed exactly alike. The first account grew by $127,000 while the other two grew by $37,000 and $40,000 respectively. So, what set these three clients apart from one another?